

**Prepared Statement of Dr. June Teufel Dreyer**  
**Commissioner, U.S.-China Economic and Security Review Commission**  
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**House International Relations Committee**  
**Subcommittee on the Western Hemisphere**  
**Subcommittee on Africa, Human Rights, and International Organizations**

Mr. Chairman, I appreciate the opportunity to testify on behalf of the U.S.-China Economic and Security Review Commission before these two important subcommittees of the House International Relations Committee.

In my testimony today I will provide an overview of China's strategy towards Latin America, including Beijing's economic and strategic objectives in the region, and would be happy to address the implications for these developments for U.S. strategic interests in response to members' questions. I welcome the chance to present my view of how China's growing presence in Central and South America fits into Beijing's larger foreign policy objectives and the implications for the U.S.-China bilateral relationship. While the PRC does not wish to damage its relations with the United States, it appears to be attempting to use Latin America to challenge U.S. supremacy in the region and build a third world coalition of nations with interests that may very well be at variance, or even inimical, to American interests and values. If the trends that are outlined below continue, they could pose a significant challenge to the Monroe Doctrine.

I also wish to advise the subcommittees that in coming months the U.S.-China Commission will begin to examine China's growing ties to Latin American nations in the context of Beijing's global diplomatic strategy. This analytical effort will include several full-day hearings, one of which I will co-chair in July. Following its 2005 hearings, the Commission will make specific findings and determine consequent recommendations for Congressional action; these will be included in its 2005 Annual Report to Congress this fall. This work plan reflects the Commission's determination to carefully determine and supply the advice and counsel to Congress concerning China's activities, and their bearing on our nation's security interests, that it is mandated to supply by the legislation that established the Commission.

### **China's Overall Strategy in Latin America**

In his recent visit to Latin America for the APEC summit in Santiago, Chile last November, Chinese President Hu Jintao stressed what he called the "win-win" nature of China's relations with Latin America. His calls for expanded political and economic ties were greeted warmly. In addition, Argentina, Brazil, and Chile extended to Beijing the much-coveted Market Economy Status (MES), which substantially diminishes the effect of anti-dumping legislation. Given the vast amount of non-market influences in the Chinese economy<sup>1</sup> and the extensive role of state actors, there can be little doubt that this decision was made almost exclusively on the basis of China's growing political and economic influence.

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<sup>1</sup> See USCC 2004 Annual Report to Congress chapters 1-3.

The importance with which China views Latin America has grown steadily since the late 1990s. That is particularly true of Beijing's six major relationships in the region: Argentina, Brazil, Chile, Cuba, Mexico, and Venezuela. China's "peace and development" rhetoric draws attention from China's security strategy in the region. Beijing's carefully calibrated diplomatic overtures have been a key to China's success over this period: maintaining a peaceful international environment to concentrate on economic development; pursuing multipolarity; and employing economic leverage when necessary. A more troubling aspect of this strategy is that it has led Beijing to seek out Latin American leaders who have differences with the United States. Specifically, these include presidents Lula of Brazil, Castro of Cuba, Toledo of Peru, and Chavez of Venezuela. Closer ties have been established under the rubric of strengthening economic interdependence, which the U.S. can scarcely object to.

### **Military Links**

China's penetration of Latin America includes a military dimension. In 2003, Australian sources reported that China had been operating two intelligence signals out of Cuba since 1999. At Bejucal, south of Havana, are a cyber warfare unit that monitors computer data traffic and a large complex equipped with ten satellite communications antennas and mainly concerned with intercepting U.S. telephone communications.<sup>2</sup> In 2001, China was reported to be negotiating with Russia for the use of the Lourdes military base on the outskirts of Havana. This had been the USSR's frontline facility for gathering intelligence on the United States; Russian President Putin decided to abandon it for financial reasons.<sup>3</sup> Unconfirmed exile sources in Miami claim that there has been cooperation among the Chinese, Cuban, and Venezuelan intelligence services. An American general informed participants in a defense conference held in Miami in March 2005 that mainland military officials made 20 visits to Latin America last year and that senior Latin American military officers who used to travel to the United States for training were now going to China instead.<sup>4</sup> In essence, the mainland is taking advantage of a void, created at least in part by the U.S. policy to cut military aid to countries that refused to exempt U.S. citizenry from International Criminal Court jurisdiction. This raises the possibility of the United States losing contact with a generation of Latin American military officers.<sup>5</sup>

### **Diplomatic Overtures**

China has institutionalized its dialogue with Latin American countries through regional and sub-regional organizations. It has obtained observer status in existing organizations, including the Association for Latin America Integration, Organization of American States, Inter-American Development Bank, and Agency for the Prohibition of Nuclear Weapons in

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<sup>2</sup> Hamish McDonald "China Loves the Buena Vista: Castro Provides Chinese Military Spying Stations in Cuba." *Sydney Morning Herald*, February 27, 2003.

<sup>3</sup> Tsutomu Saito and Keiichi Takagi, "China Said Negotiating with Russia For Use of Intelligence Facility in Cuba." *Sankei Shimbun* (Tokyo). December 7, 2001, trans. In JPP20011207000024.

<sup>4</sup> (No author), "Beijing Forging Military Links with Latin America," *Reuters* (Miami), March 12, 2005.

<sup>5</sup> *Ibid.*

Latin America and the Caribbean and joined new political dialogues or consultation mechanisms, such as the Andes Community, The Rio Group, and MERCOSUR. Most meaningful among these has been the PRC's official admission into Organization of American States as a permanent observer in May 2004.

China and Brazil have common interests in using these international fora for political purposes, including increasing their leverage against the industrialized countries. For example, the PRC and Brazil worked together closely in the 2003 Cancun World Trade Organization ministerial meeting, organizing the G 21 to bargain with the West on farm subsidies issues. Brazil has challenged U.S. leadership in the formation of Free Trade Agreement of the Americas (FTAA) by strengthening Common Market of the South (MERCOSUR). MERCOSUR has initiated negotiations on signing a free trade agreement with China.

The PRC has also used its position on the United Nations Security Council in an increasingly active role therein to develop ties with Latin America. It has supported Brazil's attempt to gain a permanent seat on the United Nations Security Council and taken part in UN peacekeeping operations, including most recently its mission in Haiti. Beijing dispatched 155 police officers to supervise Haitian police, maintain order and help rebuild the judicial system.<sup>6</sup> This kind of humanitarian assistance was designed to shore up China's image in the region and succeeded in promoting goodwill prior to President Hu's trip last November. Additionally, it provides an opportunity to erode Haiti's diplomatic ties with Taiwan.

An important indicator of increased Chinese diplomatic efforts and influence in Latin America has been its upgrading of relations with Argentina and Chile. Chile-China relations were recently declared "full-range cooperative," and the Sino-Argentine relationship was recently elevated from full-range cooperative to "strategic." A variety of incentives are used to win over Latin American states. For instance, Brazil, Cuba, Argentina and Chile were recently selected as "Chinese group travelers' destinations." China is among the top ten overseas tourist consumption markets and is expected to become the world's fourth biggest tourism source nation by 2020. Already Chinese tourists are common in many European countries and in Asia. Hence, this official designation serves as an attractive Chinese diplomatic tool, potentially worth millions of dollars each year to the nations selected.<sup>7</sup>

### **Commercial Interests**

China has recently signed a number of energy, natural resource, economic and tourism agreements intended to bolster its presence in the region and secure access to valuable natural resources and markets. In aggressively seeking out potential deals, Chinese companies have

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<sup>6</sup> "China police to keep Haiti peace," *BBC News*, September 29, 2004, <<http://news.bbc.co.uk>> (October 12, 2004).

<sup>7</sup> This kind of offer has been approved as a very attractive means in China's diplomacy. According to the World Tourism Organization, China is among the top ten overseas tourist consumption markets and will become the world's fourth biggest tourism source nation by 2020. Cuba was approved as a Chinese travelers' destination in 2003. "Brazil, Argentina, Chile approved as Chinese group travelers destinations," *Xinhuanet*, <http://www.chinaview.cn>, November 19, 2004.

significant advantages over their international competitors, which are beholden to their shareholders. According to testimony given to the U.S. Senate Energy Committee in February 2005, Chinese firms make uneconomic bids using generous lines of credit from the PRC government and financial institutions and are pursuing market and strategic objectives rather than commercial ones.<sup>8</sup>

Given China's rapidly growing consumer demand, PRC-Latin American trade has expanded rapidly in recent years, to the benefit of Latin America. In the past four years, China-Latin American trade has expanded even faster than China's total global trade. From 2001 to 2003, the average annual growth rate of China's trade with Latin America was 25.4 percent while its global trade grew by 22.1 percent. During the first half of 2004, the trend accelerated, with 55.4 percent growth in trade with Latin America and only a 39.1 percent increase in total trade. China's foreign trade with Brazil, Mexico, Chile, and Argentina together accounted for 73 percent of the total Sino-Latin American trade in 2003. Beijing has been working towards free trade agreements with these countries; it appears these efforts are most advanced with Chile.<sup>9</sup>

Beijing is also using its growing economic strength to influence Latin American nations. In 2003, the amount of trade between Latin America and China was roughly \$27 billion, which was more than twice the amount in 2000. China's exports to Latin America were \$11.9 billion, while its imports were \$14.9 billion. This trade balance in favor of Latin America is expected to continue for many years and bilateral trade is expected to continue to increase exponentially. As China continues to grow based on manufactured exports, its demand for Latin American raw materials will soar. The products that China imports from Latin America typically include iron ore, copper, oil, wool, leather and other agricultural and forestry products. It is worth noting that in many of these products, China has become the biggest consumer in the world.

Trade and investment between China and Latin American countries has grown sharply and APEC's role has been significant. So far, APEC represents the only inter-governmental framework for dialogue between China and Latin America on such issues as trade and investment.

China has also been cooperating with Latin American countries in the field of aeronautics and space exploration, especially in earth resource satellites. The two sides have already deployed two joint-developed earth resource satellites and plan to further their cooperation in the international resource satellite data market. Moreover, Embraer, the largest aviation industrial manufacturer in Brazil, and the China Aviation Industry Corporation II established the joint venture Harbin Embraer Aircraft Industry Company Limited. This is Embraer's first foreign manufacturing operation.<sup>10</sup>

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<sup>8</sup> Juan Forrero, "China's Oil Diplomacy in Latin America," *New York Times*, March 1, 2005, p.C6

<sup>9</sup> Chinese President Hu Jintao and Chilean President Ricardo Lagos Escobar announced the start of talks on a free trade agreement on November 18, 2004. (No author), "Hu in Chile," *China Daily*, November 19, 2004.

<sup>10</sup> (No author), "Brazil's Embraer Signs Deal to Build Jets in China," *Reuters* (Sao Paulo) December 3, 2002.

Much of the PRC's investment in Latin America is aimed at infrastructure construction. In a ten-year investment plan announced in November 2004, China pledged to invest more than \$19 billion in Argentina, including \$8 billion investment in the expansion of Argentina's railway system and \$6 billion in other construction projects.<sup>11</sup> This is aimed at facilitating mineral and other resource exploitation and is especially welcome in Argentina, since the 2001 default has left the country bereft of international investors. Peru and Brazil are cooperating in the construction of a road that will link Sao Paulo with Lima and, more importantly, from Brazil's soya-growing state of Mato Grosso to Peru's Pacific ports, whence goods can be more easily shipped to China. Currently, goods must be sent to Atlantic ports or trucked across Argentina to Chile.<sup>12</sup>

Despite the flowery rhetoric, not everything in the economic relationship between China and Latin American nations is positive. Relations between China and Mexico have been marred by the competitive threat to Mexico from low Chinese wages and cheap goods. It is estimated that from 2001 to 2003, more than 200,000 clothing, textile and other factory jobs were lost in Mexico by the relocation of factories to China.<sup>13</sup> Leaders in almost every Mexican industrial sector, from traditional handicrafts to assembly-for-export plants, have complained about the penetration of Chinese goods into Mexican markets and jobs lost to low Chinese wages. Even images of Mexico's patron saint, the Virgin of Guadalupe, are now made in the PRC. President Vicente Fox blamed China publicly for solving "its domestic unemployment by means of authoritarian and undemocratic policy."<sup>14</sup> Some Latin American economists have derided the talk of a South-South alliance as more ideological than economic. They fear that Beijing intends to use the region as a producer of commodities so as to regulate prices and depress them on world markets, and stress that Latin America must avoid falling into the trap of being a supplier of commodities for the PRC's value-added manufacturing enterprises—in effect, in their view, assuming the posture of a Chinese colony. Closing factories in Central America has implications for employment in the United States as well, since more than 70 percent of the garments made in Central America are produced from American fabric and yarn. In the words of one Central American exporter who closed one of his four plants last year and faces the closing of another in 2005, "If we go belly up, the United States will go belly up." Many of the unemployed in Central America can be expected to emigrate to the United States.<sup>15</sup>

After the Brazilian government agreed to recognize China as a market economy, the influential Industrial Federation of Sao Paulo criticized the move as a political decision that could leave the country's industry in a vulnerable position and bring "prejudicial consequences to various industrial sectors."<sup>16</sup> Designation as a market economy will, for example, make it harder under WTO rules to impose penalties on the PRC for dumping

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<sup>11</sup> "China Plans to Invest \$19B in Argentina," *Xinhuanet* 17 November 2004, < <http://www.chinaview.cn> > (November 17, 2004).

<sup>12</sup> (No author), "Short Cut to China: Completing the Missing Link," *Economist*, March 23, 2005.

<sup>13</sup> Mary Jordan, "Mexico Now Feels Pinch of Cheap Labor," *Washington Post*, December 3, 2003, p. A19.

<sup>14</sup> Neal Kuo, "Blame Partner for Rising Unemployment: China and Mexico Relations in Troubled Water," *China Times*, August 9, 2004, p. A10.

<sup>15</sup> Ginger Thompson "Fraying Of a Latin Textile Industry," *New York Times*, March 25, 2005.

<sup>16</sup> Larry Rohter, "China Widens Economic Role in Latin America," *New York Times*, November 20, 2004, [www.nytimes.com/2004/11/20/international/asia/20china.html](http://www.nytimes.com/2004/11/20/international/asia/20china.html)

exports. Brazilian businesses worry not only about the PRC's inroads into the domestic market, but also about exports of products which Brazil has had some success in exporting. Additionally, so much foreign investment has been going to China that Latin America is finding it difficult to obtain the capital it needs to finance its own growth. Since many of the projects funded by the PRC are highly polluting, environmentalists are concerned. Noting Beijing's poor record on such projects as the South-North water transfer project, the Three Gorges Dam, and the Golmo to Lhasa railway, they fear similar effects in Latin America.<sup>17</sup>

## **Taiwan**

Since 1949, China's relations with Latin America have been influenced by China's competitive relationship with Taiwan. During his 2004 tour of the region, President Hu Jintao stressed the importance of the one China principle and peaceful reunification under the principle of "one country, two systems." Over the years, both the People's Republic of China (PRC) and Republic of China on Taiwan (ROC) have competed fiercely with each other in Latin America, mobilizing substantial diplomatic and economic resources to achieve their interests.

Taiwan maintains diplomatic relations with 26 countries. Of these, 12 are in Latin America.<sup>18</sup> All Central American nations have maintained diplomatic relations with the Republic of China on Taiwan for more than six decades.

Participation in the international trade regime is a major pillar in Taiwan's strategy to protect its national interests and prevent it from being marginalized in international society. In addition to participating in global and regional trade organization (e.g., World Trade Organization, Asia Pacific Economic Cooperation), Taiwan's government has relentlessly pursued a free trade agreement with any willing nation. Panama and Costa Rica currently maintain the most robust trade relationship with Taiwan.

China has taken several steps to win friends and expand its interactions in the western hemisphere with an eye towards undermining Taiwan's diplomatic ties to the region. China has used its position as a permanent member of UN Security Council to approach those Latin American nations, which have diplomatic relations with Taiwan. China has on occasion employed coercive measures to compel Central American states to modify their policies toward Taiwan. Such tactics have, however, sometimes backfired. In 1996, angered by Chinese efforts to impede the extension of a United Nations peacekeeping operation in Haiti, the nations of the region, including Cuba, unanimously appealed to the UN Security Council to end further Chinese obstruction of the operation.<sup>19</sup> In 1997, China forced Guatemala to withdraw its support for Taiwan's bid for United Nations membership by vetoing a proposal

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<sup>17</sup> *Ibid.*

<sup>18</sup> These 12 countries are: Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, St. Kitts and Nevis, and St. Vincent and Grenadines. (No author), "Grenada Picks China Over Taiwan," *BBC News World Edition*, January 21, 2005.

<sup>19</sup> Barbara Crossette, "Latin Nations At U.N. Insist China Change Stand on Haiti," *New York Times*, February 24, 1996, p. 5.

to send an urgently needed verification mission to Guatemala.<sup>20</sup> Despite China's pressures, however, Guatemala continues to support Taiwan on other issues.

Faced with the failure of coercive policies, China modulated its foreign policy in a more nuanced direction. Using its growing economic power, China gained a foothold in Central America by providing trade and investment opportunities. It established semi-official trade development offices in Panama, Haiti, and the Dominican Republic. China also employed an indirect approach to gaining leverage on Taiwan via group pressure. For example, China used a free trade agreement with Brazil and Argentina to motivate them to exert pressure on Paraguay to switch its diplomatic recognition, although this has not yet achieved the desired goal.

Panama is the current frontline battleground in the competition between China and Taiwan.<sup>21</sup> Although Panamanian officials stress that their government has no plans to recognize the PRC, voices for such a change have been heard from time to time.<sup>22</sup> During Panama's 2004 presidential election campaign, Guillermo Endara Galimany, a former President and a candidate for the Solidarity Party, said that if he were elected, he would transfer diplomatic recognition from the Republic of China to the People's Republic of China.<sup>23</sup>

In courting Panama, one of China's strengths lies in its presence at the Panama Canal. China is the third largest user of the Panama Canal, after the United States and Japan. The China Ocean Shipping Company's President has joined the advisory board of the Panama Canal Authority, the agency in charge of supervising the waterway.<sup>24</sup> China's Vice Foreign Minister Zhou Wenzhong stressed during his visit in June 2004 that China hopes to participate in the expansion of the Canal and the construction of new locks.<sup>25</sup> China is now attempting to use its huge commercial potential to influence Panama's diplomatic loyalties and appears to hope other Central American countries will follow suit. China's total two-way trade with Panama is \$150 million, and its domestic market is a great attraction for Panama and its people. Competition between China and Taiwan will continue.

The carrot and stick policy that the PRC has traditionally employed with Third World countries applies as well to its dealings in Latin America. In a recent example of that behavior, China denied access by all states that recognize Taiwan to a new, UN-sponsored South-South Cooperation project.<sup>26</sup> China has also used its membership regional and sub-regional organizations to further its Taiwan policy. For example, in October 2002, then Chinese Foreign Minister Tang Jiaxuan met with the foreign ministers of the Andes

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<sup>20</sup> Lian-fen Wang, "China Uses Veto Power for the First Time in 25 Years," *China Times*, January 12, 1997.

<sup>21</sup> Cynthia Watson, "Adios Taiwan, Hola Beijing: Taiwan's Relations with Latin America," *China Brief* Vol. 4, No. 11, May 27, 2004, p. 9.

<sup>22</sup> (No author), "Higher Voices for Diplomatic Relations with PRC among Panamanian Politicians," *United Daily News*, May 16, 2004, p. A13.

<sup>23</sup> (No author), "Changes in Republic of China and Panama Diplomatic Relationship?" *United Daily News*, April 22, 2004, p. A13.

<sup>24</sup> (No author), "Changes in Republic of China and Panama Diplomatic Relationship?" *United Daily News*, April 22, 2004, p. A13; Vanessa Hua, "The Americas; Which China Card?" *Economist*, July 13, 2002, p. 50.

<sup>25</sup> Neal Kuo, "Red Alert: Frederick Chien Flies to Panama," *China Times*, June 24, 2004, p. A2.

<sup>26</sup> (No author), "Taiwan's Allies to be Excluded from Chinese Aid Plan," *Agence France Presse*, July 7, 2004.

Community and convinced them to insert an additional paragraph into Joint Communiqué: “The Andes Community and its member states abide by the one China policy, there is one China in the world; the People’s Republic of China is the sole legal representative of China; and Taiwan is an inseparable part of China.”

## **Energy and Raw Materials**

There is a clear distinction between U.S. and PRC approaches to securing oil supplies. Whereas the U.S. has shifted from an oil import strategy that was based upon controlling the oil at its source to one that is based upon global market supply and pricing, the PRC strategy is still focused upon owning the import oil at the point of production. Geopolitically, this could bring both countries’ energy interests into conflict. The U.S. strategy is to have plenty of oil available on the world market, while PRC wants to own the barrel that they import.<sup>27</sup>

As China becomes the world’s manufacturing center, it has also become the world’s largest consumer of copper, aluminum, iron, and cement, and number two consumer of oil. To protect these supplies, China is employing methods of past imperialist powers. There are examples in Latin America of Chinese mercantilism assuming a pattern in which a dominant country secures markets for its manufacturing goods in exchange for raw materials from its weaker partners. Ambitious mercantile powers want to keep any advanced industrial project in their own hands, relegating trade partners to a subordinate supplier status.<sup>28</sup>

China’s oil demand is expected to reach 12.8 million barrels a day by 2025. While in South America for the Santiago APEC summit, China’s President Hu toured Latin America to boost bilateral trade and cooperation. These efforts can be seen as part of a broader drive for overseas expansion by PRC national oil companies (NOCs) to meet growing demand, diversify, and lessen reliance on the Middle East. These moves fit the typical pattern of PRC energy investments: ideological links with trading partners and absence of competition from large U.S. producers.<sup>29</sup>

Some analysts look at China’s global push for resources and at the prices it is paying as a sign of weakness and national insecurity – or paranoia, an acute awareness of vulnerability. According to these analysts, China does not see the international system as being in its favor and thus it engages in a constant quest for vertical integration and control. The \$1 billion Brazil pipeline deal is an example of this insecurity – the oil involved could be purchased on the open market for one third of that amount. The Canadian (Noranda) mineral deal (\$5.5 billion) is another example. Noranda is the world’s third largest zinc producer and ninth largest copper producer. But the PRC’s actions appear to be based upon the assumption that commodity prices will stay high indefinitely, and PRC could be left holding vastly inflated

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<sup>27</sup> James Caverly, “The Future of China’s Energy Security,” *Economics and National Security: The Case of China* (Carlisle Barracks, PA: U.S. Army War College, August 2002), p. 324.

<sup>28</sup> William R. Hawkins, “China Pursues ‘Manifest Destiny’ Through Mercantilism and Imperialism,” February 3, 2005.

<sup>29</sup> Juliette Kerr, “China’s Sinopec Signs Production Contract with Cuban State Oil Company,” World Markets Research Centre, February 1, 2005.



contracts if prices collapse. Other analysts say that the security these investments bring is worth the high prices.<sup>30</sup>

China's global equity in investments in energy exploration and production (E&P) are not entirely profit motivated. China's interests are also geopolitical (WTO /market economy recognition, non-recognition of Taiwan, establishing long-term relationships with states out of favor with the U.S., etc). The underlying reason for China's quest for energy security is political stability – it needs export (manufacturing) driven GDP growth of at least 7 percent to avoid social unrest, and to fuel the manufacturing sector it needs secure supplies of oil. (It is self-sufficient in other forms of energy, or the proportions are small.)

## 1. Venezuela

Venezuela is pumping around 2.6 million barrels of oil a day. This is lower than its OPEC quota and the official government estimate of 3 million barrels a day. Its goal is to produce 5 million barrels a day by 2009.

Visiting China in December 2004, Chavez said that China would be allowed to operate 15 mature oil fields, which could produce more than a billion barrels. Chavez has also invited PRC firms to bid on gas exploration contracts. Other agreements that Hu and Chavez signed covered agriculture, railways, mining, and telecommunications. Venezuela and China are looking into ways to improve movement of oil to Pacific transfer points. A pipeline across Venezuela and Colombia to a deepwater port is being considered. A backup alternative would be a pipeline through Panama.<sup>31</sup>

Venezuela, which sends more than 60 percent of its oil to the U.S., began negotiations with Colombia last month on building an oil pipeline to the Pacific. That would enable greater exports to China by bypassing the Panama Canal.<sup>32</sup> Besides the development rights in the 15 oil fields, PRC will also build refineries. Chavez also invited PRC to help him establish a government-owned oil corporation. Only 4,000 barrels per day would go to the PRC. The PRC imports about 738 million barrels of oil a year, and the deal is thus “less than 0.2 percent of the amount that China is expected to import this year.”<sup>33</sup> By comparison, the U.S. imports around 1.5 million barrels a day from Venezuela according to the DOE. According to state-run Petroleos de Venezuela SA, Venezuela exports 2.7 million barrels a day.<sup>34</sup>

Some are concerned about Chavez's ambitions. The deal that Venezuela and Colombia signed for oil and gas pipelines between the Maracaibo Basin and the Pacific and Caribbean would allow Venezuela to ship oil to China without going through the Panama Canal. This

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<sup>30</sup> Howard W. French, “China's Splurge on Resources May Not be a Sign of Strength,” *New York Times*, December 12, 2004.

<sup>31</sup> Hawkins, February 3, 2005.

<sup>32</sup> Paul Basken and Damian McLean, “China's Foreign Policy Pumped by Oil,” *Straits Times*, December 21, 2004.

<sup>33</sup> Chris Buckley, “Venezuela Agrees to Export Oil and Gas to China,” *New York Times*, December 27, 2004.

<sup>34</sup> (No author) Colombia, Venezuela Consider Pipeline for China Sales (Update 1),” Bloomberg.com, January 9, 2004.

makes it in Chavez's interest to secure a pliant government in Colombia, and if successful, then he could dominate the region – destabilize the hydrocarbon rich governments in Bolivia, Colombia, and Ecuador – i.e., have a regional monopoly.<sup>35</sup>

## 2. Brazil

In the energy sector, Beijing is reaching out to Brazil for its reserves of non-enriched uranium and is interested in convincing Brazilian firms to participate in the construction of 11 new nuclear power plants in China.<sup>36</sup> In addition, its representatives are negotiating a \$1.17 billion agreement for Chinese participation in two Brazilian gas pipelines.<sup>37</sup>

Brazil's oil and gas output is expected to peak at 3.27 million barrels a day oil equivalent by 2020. After 2020, Brazil's production is expected to fall, but Brazil will be self sufficient in crude oil by 2006. Today, Brazil's production stands at 1.8 million barrels a day of oil equivalent (of which just oil is 1.5 million barrels a day). Most of Brazil's production is offshore and is produced by the state-owned company Petrobras.<sup>38</sup> Brazil exported 5 million barrels of oil to China in 2003, and was expected to export 14 million barrels in 2004.<sup>39</sup>

Last November, when Hu visited Brazil, both President's Lula and Hu predicted that China would replace U.S. as Brazil's largest trading partner, and they spoke of a strategic partnership. The PRC wants to increase its imports of chicken, beef, soybeans and minerals. China's long-term objectives are to satisfy its need for raw materials and food. In return, Hu offered \$5-\$7 billion investment in Brazil's roads, railways and ports. Also, the PRC wants to transfer Brazil's aircraft technology to PRC by embarking on a joint venture with Brazil in regional airliner construction. It has an agreement to buy at least ten of Brazil's Embraer aircraft, but the real PRC objective is the joint venture.<sup>40</sup>

In May 2004, Petrobras and Sinopec signed strategic cooperation agreements for oil exploration, production, refining, products sales, petrochemicals, pipelines, and technical cooperation partnerships. Also, PRC and Brazil have signed a memorandum of understanding (MOU) under which Sinopec will evaluate whether to participate in a proposed 1,225 mile, \$1.3 billion natural gas pipeline in Brazil. Sinopec would perform engineering and construction, financing would be supplied by China's Export-Import bank. China has pledged to invest \$10 billion in Brazil over the next two years. Also, Petrobras has agreed to cooperate with Sinopec in oil exploration in China and Brazil and will build a logistics center in China.<sup>41</sup>

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<sup>35</sup> Stephen Johnson and Ariel Cohen, "Minimizing Mischief in Venezuela, Stabilizing the U.S. Oil Supply" (Heritage Background No. 1787, August 12, 2004).

<sup>36</sup> (No author) "China Re-evaluating Energy Policies: Brazil," *China Reform Monitor* No. 550 (June 23, 2004).

<sup>37</sup> (No author) "China Looking to Latin America for Resources During Hu Trip," *Yahoo News*, November 10, 2004. <<http://news.yahoo.com>> (November 11, 2004).

<sup>38</sup> Bernd Radowitz, "Brazil's Oil, Gas Output 3 Million Barrels a Day by 2015," *Schlumberger Realtime News*, November 23, 2004.

<sup>39</sup> Peter Howard Wertheim, "General Interest/Brazil Accepts China as 'Market Economy', Inks Cooperation Pacts," *Oil and Gas Journal Online*, November 16, 2004.

<sup>40</sup> Hawkins, February 3, 2005.

<sup>41</sup> Wertheim, November 16, 2004.

The PRC was Brazil's seventh largest export destination in 2002 but moved to number 3 in 2003. Aided by its newly awarded MES, by 2005, the PRC is expected to eclipse Argentina as Brazil's number two export destination.<sup>42</sup> The PRC/Brazil "trade deal included funding for a joint oil-drilling and pipeline program at a cost that experts said would add up to three times the cost of simply buying the oil on the market."<sup>43</sup>

#### 4. Argentina

When Hu visited Argentina in November 2004, he announced a \$19.7 billion broad-ranging package of possible PRC investments in Argentina (roads, construction, and energy).<sup>44</sup> China would supply \$8 billion dollars for railroads, \$6 billion for construction projects, and \$5 billion for oil exploration and also would provide funds for communications and satellite technology development. China is the fourth largest destination for Argentine exports (the leading export is soybeans). Hu signed letters of intent and MOUs calling for increase in PRC imports from Argentina from \$3 to \$7 billion.<sup>45</sup> The energy part was \$5 billion, to be invested in Argentine oil exploration over five years, but the offer came from a third party – Angola. It was extended by Angola's state-owned company Sonangol to the newly created Argentine state-owned company Enarsa. (Angola is sub-Saharan Africa's second largest oil producer after Nigeria. Earlier this year, the PRC loaned Angola \$2 billion to rebuild infrastructure destroyed in the civil war, and Angola rejected Royal Dutch Shell's plans to sell its half of a petroleum project to an India company and ordered the private company to sell to PRC interests instead.) Argentina's decision to bring in the China-Angola alliance comes as President Kirchner's government takes a more assertive role in Argentina's troubled energy sector.<sup>46</sup> The lead export to the PRC is soybeans, and most of the Argentine increase in exports was in agricultural products. On the other hand, PRC's exports to Argentina are manufactured goods.<sup>47</sup>

#### 5. Cuba

In the energy arena, Cuba normally attracts less attention than the oil-rich states. But on Christmas Day 2004, Castro announced that two Canadian companies had discovered reserves of 100 million barrels in the Gulf of Mexico next to Cuba. Cuba gets most of its oil from Venezuela on favorable terms. The discovery could have some significance for U.S., to which the Gulf of Mexico is one of its largest sources of oil. U.S. companies are prohibited from drilling in waters 100 miles from Florida, but foreign companies are active there. Cuba's oil production is up from 18,000 barrels a day in 1992 to 75,000 in 2004 – mostly heavy oil used for power plants and cooking. It imports 53,000 barrels a day from Venezuela, much of it already refined into gasoline. However, the new finds are lower in

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<sup>42</sup> Randy Jones, "Hu visited Lula and Brazil recognized China as a market economy." SCMP/AP, November 17, 2004 (Buenos Aires).

<sup>43</sup> Richard Spencer, "Tension rises as China sours the globe for energy," *news.telegraph*, November 19, 2004.

<sup>44</sup> Drew Pearson, "China – Argentina Oil Investment Deal Gives Angola Key Role," *Schlumberger realtimenews*, November 23, 2004.

<sup>45</sup> Randy Jones, "China announces plans to invest US\$19 billion in Argentina," SCMP/AP, November 17, 2004 (Buenos Aires).

<sup>46</sup> Pearson, November 23, 2004

<sup>47</sup> Hawkins, February 3, 2005.

sulfur. Larger finds could put pressure on the Bush administration to “permit minimum purchases of Cuban origin oil.”<sup>48</sup>

PRC has had a trade/intelligence relationship with Cuba for some time, and the discovery of oil (if more significant) will probably increase PRC involvement in Cuba, 90 miles from U.S.

Cuba’s state oil company Cubapetroleo (CUPET) signed a production sharing agreement a month after Castro’s announcement of the 100 million barrel discovery. China is Cuba’s third largest trading partner after Venezuela and Spain, representing 10 percent of Cuba’s foreign trade. But China’s foreign investment in Cuba has been concentrated in nickel production, not oil exploration. Because it has limited oil exploration investment capital, Cuba has been forced to open up oil exploration activities to foreigners in a bid to boost production. As the result of increased foreign investment, oil production has increased, but Cuba is a long way from being self-sufficient. The Chinese investment in Cuba’s oil sector is a new development – of 16 economic cooperation agreements signed during Hu’s visit in November 2004, only one related to energy – a triangular arrangement for export of Venezuelan coal to Cuba which would be used to generate electricity for a Chinese steel mill. Currently joint venture projects with foreign firms account for 60 percent of Cuba’s crude production. Cuba can now generate most of its electricity with its own oil and provides for about a half of its total fuel consumption. Cuba still imports around 100,000 barrels a day, of which 53,000 comes from Venezuela.<sup>49</sup>

## **Conclusion**

As discussed above, China’s recent overtures in Latin America thus represent the new importance with which Beijing views the region. Trade, diplomacy, energy, and geopolitics all figure heavily in China’s attempts to extend its influence in the western hemisphere. On occasion, the lack of a strong U.S. presence has aided Beijing’s efforts. I am hopeful that today’s hearing will clarify China’s goals and intentions in Latin America as well as their implications for U.S. interests in the region.

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<sup>48</sup> Simon Romero, “Oil Find Hints at a Less Dependent Cuba,” *New York Times*, January 11, 2005.

<sup>49</sup> Kerr, *op. cit.*